UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	))	Docket No. ER06-615-002

PREPARED SEAMS TECHNICAL CONFERENCE REMARKS OF CHARLES KING, VICE PRESIDENT OF MARKET DEVELOPMENT AND PROGRAM MANAGEMENT OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

On behalf of the California Independent System Operator Corporation ("California ISO"), I would like to thank the Federal Energy Regulatory Commission (the "Commission" or "FERC") for this opportunity to discuss seams issues between the California ISO and its neighboring control areas. I am Charles King, Vice President of Market Development and Program Management with the California ISO. Seams issues are not new in the West. The California ISO and its neighbors have worked for years to resolve seams issues that exist between them, and will continue to do so.

As explained in our filing of November 17, 2006, the California ISO has identified two items to discuss here today. Both these items are based on the need for further coordination between control areas in the West, regardless of the Market Redesign and Technology Upgrade (MRTU). We are pleased to be participating in today's dialogue, and urge the Commission and the parties to this proceeding to ensure that the dialogue on seams issues in this proceeding bring us closer to fruitful resolution of barriers to trade in the West.

What constitutes a "seams issue"?

Before embarking on the resolution of seams issues in this proceeding, we believe that it is important to reach a common understanding as to what constitutes a "seams

issue." Seams issues occur in the first instance because of differences in rules across control areas boundaries. But a variance in the rules and practices themselves does not by definition create a "seams issue." Rather, based on my experience in dealing with seams issues in the eastern interconnection for several years, "seams issues" are those variances that represent a true barrier to trading energy, ancillary services or capacity between control areas. More specifically, a "seams issue" is a barrier or inefficiency resulting from either (1) equipment limitations or differences in market rules and designs, or (2) operating and scheduling practices that inhibit or preclude the ability to economically trade capacity, energy, and ancillary services across control area boundaries. Such seams issues should be mitigated as they can otherwise lead to inappropriate price signals, gaming opportunities and inefficient or underutilization of scarce transmission resources.

To better understand how to resolve such seams issues, it is helpful to separate seams issues into three categories: spatial, temporal, and administrative. Spatial seams issues are those that relate to the physical operation of the underlying power grid. For example, they include specific concerns such as transparency of system operations, modeling techniques, transfer capability, hourly scheduling ramp limits, scheduling thresholds, external control area system models (proxy busses/scheduling points) and the like. Temporal seams issues result from differences in timing and frequency that can inhibit trading due to mismatch and confusion. Examples of temporal seams issues are the various differences in closing and posting times, control area scheduling frequency and check out procedures, auction frequency, and settlement cycles. Administrative seams issues include reservation scheduling rules, bidding rules and protocols, operations

procedures and policies, interconnection policies, and resource deliverability requirements.

In preparation for today's meeting, we have identified two items that we believe merit consideration in this proceeding. Both items relate to the need for further coordination of data exchanges among the western control areas. Indeed, many of the issues raised by parties in this proceeding are rooted in the lack of such coordination. The first item we have identified is not a seams issue per se, but more of an opportunity for greater coordination among western control areas. More specifically, we believe that, in parallel with the development and implementation of MRTU, new procedures for the exchange of day-ahead scheduling data among control areas can be developed that will benefit all western control areas. Such west-wide coordination would indeed improve many of the inter-control area issues that parties have raised as seams issues in this proceeding.

The second item we identified that merits consideration is a related data issue and involves the modeling and transparency of embedded and adjacent control areas within the California ISO footprint. We believe that we can enhance the reliability benefits provided under MRTU by obtaining detailed modeling of those control areas that are either embedded within the California ISO control area or adjacent to the California ISO control area and within California. This would require access to certain day-ahead scheduling data in conjunction with such modeling.

Seams and Seams Resolution Processes are Not New To the West.

The California ISO agrees with the Commission's MRTU Order issued on September 21, 2006 ("MRTU Order") that seams exist today in the West and that the

implementation of MRTU will lessen certain existing seams issues (MRTU Order at P 485-486). The California ISO also supports the Commission's conclusions that while MRTU presents a different way of using the California ISO-controlled grid, MRTU also provides necessary economic and reliability gains that will benefit the West as a whole despite variances in operations among the western entities (MRTU Order at P 486). The California ISO further agrees with the Commission that should the adoption of Locational Marginal Price ("LMP") based markets create any seams issues, such seams issues are not insurmountable as has been shown by eastern Regional Transmission Organizations ("RTOs") and Independent System Operators ("ISOs") that have adopted LMP-based markets while sharing a border with other control areas that do not have such markets (MRTU Order at P 487). For all these reasons, we support the Commission's decision to "deny requests to reject or defer action" regarding MRTU (MRTU Order at P 486).

Seams issues in the West are not new, nor are centralized markets in California. The California ISO has a long history of operating a centralized market in the West where many of the other control areas do not have such market rules in place. While LMP-based markets require a transition to a new way of managing congestion on the grid, the California ISO has been operating a bid-based, centralized real-time market for almost nine years. Throughout this time, the California ISO has been successful in resolving many of the issues that affect trade between two control areas where the rules and practices are not the same. An important distinguishing feature between the California ISO and other ISOs/RTOs that have previously adopted LMP-based energy markets is that the California ISO already has a market and is transitioning to LMPs, not creating a ***new*** "market-to-non-market" environment.

Many of the control-area-to-control-area seams issues that the California ISO has dealt with over the years have culminated in the adoption of Interconnected Control Area Operating Agreements ("ICAOAs").[1] These agreements are the instruments through which the California ISO and its neighboring control areas have coordinated their operations and maintenance of applicable control area interconnections to satisfy North American Electric Reliability Council ("NERC") criteria and Western Electricity Coordinating Council ("WECC") Minimum Operating Reliability Criteria and Good Utility Practice. These agreements contain details on the terms and conditions related to respective control area operational responsibilities, security coordination, scheduling and dispatch, outage coordination, emergency operation, and other matters related to the coordinated operations of neighboring control areas.

Also, MRTU was not developed in a vacuum. Throughout the lengthy market design and development phase of MRTU, the California ISO has worked with its neighbors to address existing seams and avoid new seams under the new market design. The California ISO actively participates in several WECC committees including the Interchange Scheduling and Accounting Subcommittee ("ISAS"), the Operating Committee ("OC") and the Market Interface Committee ("MIC"). In addition, the California ISO continues to reach out to its neighbors in the West through background and training presentations at regional meetings and one-on-one meetings with other control areas to identify and begin addressing operations-related seams issues.

[1] The California ISO has executed ten ICAOAs with neighboring control areas, including the following members of the Control Area Coalition: the Los Angeles Department of Water and Power, SMUD, the Salt River Project, the Turlock Irrigation District, and WAPA (Desert Southwest Region).

Principles for the Seams Resolution

Tomorrow, Yakout Mansour, our Chief Executive Officer, will speak to the seams resolution process in greater detail. But as we embark upon further discussion of seams issues in the West, there are several principles that I would like to share based on my experiences in dealing for years with seams in the eastern interconnection. To start with, as I discussed above, not all seams issues merit resolution. As a first step, it is incumbent on the California ISO and its interconnected neighbors to try to reach a common understanding of the relevant seams issues that truly have a significant and adverse impact on trade. Next, we must prioritize these issues. Lastly, we must develop specific work plans for mitigating the issues with the affected parties to successfully address them over time. It is also important to recognize that adherence to applicable national and regional standards, good utility practice and compliance with the requirements under prior Commission rulings on open access must continue to apply.

I would also like to discuss today the principle of "cost causation" as an additional guiding principle that I believe will help us quickly find common ground on these issues and direct us toward meaningful and feasible solutions. In some of the preliminary literature and discussions, parties have suggested that the California ISO make numerous changes and concessions in order to preserve "traditional" flows or practices. Without getting into the merits of those arguments, I would like to note that the California ISO is a not-for-profit public benefit corporation and as such is the steward of the resources conveyed to it under its tariff. This is important in that the California ISO has limited flexibility to allocate and spend the resources under its jurisdiction. We cannot simply enter into specific agreements that will incur costs for our constituents without

demonstrating a corresponding benefit. Moreover, as an independent transmission operator, the ISO must balance competing interests, much as the Commission does as a regulator. Over the brief time that I have worked at the California ISO, I have received numerous requests from individual parties who would like to be exempt from MRTU features such as marginal losses, congestion charges, and others. To enter into such one-off arrangements would impose costs on other California ISO market participants – an action the California ISO does not have the authority to unilaterally direct.

In conclusion, I appreciate the opportunity to address the Commission and my fellow industry members on these important matters. Building upon past work and the outcome of today's conference, the California ISO will continue to work on long-standing seams issues that exist simply by the nature of differences between market rules and practices within the western interconnect.